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# ANNUAL STATEMENT

For the Year Ending December 31, 2009
OF THE CONDITION AND AFFAIRS OF THE

# NORTH CAROLINA MUTUAL LIFE INSURANCE COMPANY

NAIC Group Code 0000 (current period), 0000 (prior period) NAIC Company Code 67032 Employer's ID Number 56-0340860

Organized under the Laws of North Carolina, State of Domicile or Port of Entry NORTH CAROLINA

Country of Domicile United States of America

Incorporated/Organized 02/28/1899 Commenced Business 04/01/1899

Statutory Home Office 411 W. Chapel Hill Street (Street and Number), Durham, NC 27701-3616 (City or Town, State and Zip Code)

Main Administrative Office 411 W. Chapel Hill Street (Street and Number)

Durham, NC 27701-3616 (City or Town, State and Zip Code) (919) 682-9201 (Area Code)(Telephone Number)

Mail Address 411 W. Chapel Hill Street (Street and Number), Durham, NC 27701-3616 (City or Town, State and Zip Code)

Primary Location of Books and Records 411 W. Chapel Hill Street (Street and Number)

Durham, NC 27701-3616 (City or Town, State and Zip Code) (919) 682-9201 (Area Code)(Telephone Number)

Internet Website Address ncmutuallife.com

Statutory Statement Contact Kamlesh Shah (Name) (919) 313-7807 (Area Code)(Telephone Number)

kshah@ncmutuallife.com (E-Mail Address) (919) 313-8723 (Fax Number)

## PRINCIPAL OFFICERS***

| | |
|---|---|
| President and Chief Executive Officer | JAMES HERBERT SPEED JR., CPA |
| Senior Vice President-Chief Operating Officer | RICHARD LEE HALL |
| Sr. Vice President of Administration/Human Resources | GRACIE ANN JOHNSON-LOPEZ, SPHR |
| Vice President-Accounting Services | DAVID ALAN BAYLOCK |
| Vice President-Corporate Actuary | STAFFORD LEROY THOMPSON, JR, FSA, MAAA |
| Vice President-Group Marketing | ARTHELL DAMON DAVIS |
| Vice President-Individual Marketing | RONALD RUSSELL CORLEW |

## DIRECTORS***

| | | |
|---|---|---|
| CAROL MOSELEY BRAUN | ERSKINE BOYCE BOWLES | JULIUS LEVONNE CHAMBERS |
| BERT COLLINS, Chairman | JOE LOUIS DUDLEY, SR. | NATHAN TAYLOR GARRETT, SR. |
| ELLIOTT SAWYER HALL | JAMES HERBERT SPEED, JR. | THEODORE WALSTEIN LONG, JR. |
| PHAIL WYNN JR. | | |

State of North Carolina

County of Durham ss

The officers of this reporting entity being duly sworn, each depose and say that they are the described officers of said reporting entity, and that on the reporting period stated above, all of the herein described assets were the absolute property of the said reporting entity, free and clear from any liens or claims thereon, except as herein stated, and that this statement, together with related exhibits, schedules and explanations therein contained, annexed or referred to, is a full and true statement of all the assets and liabilities and of the condition and affairs of the said reporting entity as of the reporting period stated above, and of its income and deductions therefrom for the period ended, and have been completed in accordance with the NAIC *Annual Statement Instructions* and *Accounting Practices and Procedures* manual except to the extent that: (1) state law may differ; or, (2) that state rules or regulations require differences in reporting not related to accounting practices and procedures, according to the best of their information, knowledge and belief, respectively. Furthermore, the scope of this attestation by the described officers also includes the related corresponding electronic filing with the NAIC, when required, that is an exact copy (except for formatting differences due to electronic filing) of the enclosed statement. The electronic filing may be requested by various regulators in lieu of or in addition to the enclosed statement.

| | | |
|---|---|---|
| (Signature) | (Signature) | (Signature) |
| James Herbert Speed, Jr. | Richard Curtis Barnes | David Alan Baylock |
| (Printed Name) 1. | (Printed Name) 2. | (Printed Name) 3. |
| President, CEO | Corporate Secretary | Vice President - Accounting Services |
| (Title) | (Title) | (Title) |

Subscribed and sworn to before me this

______ day of ____________

____________ (Notary Public Signature)

a. Is this an original filing? Yes [X] No [ ]

b. If no: 1. State the amendment number ______
2. Date filed ______
3. Number of pages attached ______

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# Management's Discussion and Analysis

INTRODUCTION

This discussion provides an assessment by management of the current financial position, results of operations, cash flows and liquidity, and changes in financial position for North Carolina Mutual Life Insurance Company (North Carolina Mutual or the Company) as of and for the year ended December 31, 2009 as compared to and with 2008. Information presented in this discussion supplements the financial statement exhibits, schedules and disclosures in the 2009 Annual Statement. The basic financial statements included within our 2009 Annual Statement were prepared in accordance with the statements of statutory accounting principles found in the National Association of Insurance Commissioners Accounting Practices and Procedures Manual effective March 2009.

This Management's Discussion and Analysis of Financial Position and Results of Operations contains statements which constitute forward-looking statements including statements relating to the trends in operations and financial results and the business and products of North Carolina Mutual as well as other statements including words such as "anticipate", "believe", "plan", "estimate", "expect" and other similar expressions. Forward looking statements are made based on management's current expectations and beliefs concerning future developments and their potential effects on the Company. Such forward-looking statements are not guarantees of future performance.

OPERATIONAL AND FINANCIAL HIGHLIGHTS

FINANCIAL POSITION

For the year ended December 31, 2009, net admitted assets totaled $151.6 million, a decrease of $7.8 million, liabilities totaled $145.2 million, a decrease of $4.7 million, and surplus totaled $6.4 million, a decrease of $3.1 million from prior year end.

Introduction

After a difficult 2008, as experienced by most of corporate America, the Company, like many others, began to rebuild from the previous year's economic downturn. The Company's operating losses declined significantly as a result of implementing strategies that continued a four year trend of reducing general and administrative expenses from $18.4 million in 2005 to $12.0 million in 2009. Other contributing factors to the lower operating loss included changes to product pricing and distribution compensation, the elimination of unprofitable group business and the profits generated by the 2008 Booker T. Washington acquisition (see below). Unfortunately, while the Company continues to maintain a conservative investment portfolio, it was unable to avoid the investment losses felt by much of corporate America as investments in typically strong companies such as Citigroup and CIT Group lost value during the year, dramatically affecting the Company's net loss and capital position.

The Company continues to pursue growth through the acquisition of businesses that expand our geographic footprint and better utilize current human and technological capacity. The 2008 acquisition of a closed block of premium paying policies from Booker T. Washington and Universal Life Insurance Company continues to provide great success in terms of operational earnings and growth in a region that was previously lacking.

While surplus declined by $3.1 million to $6.4 million, the Company's Risk Based Capital ratio increased by 72 points to 302% due to a sharp decline in required capital as a result of a comprehensive analysis by the Company to ensure that all required capital generates profitable results. If not, the Company either exited those business relationships or maintained key relationships while utilizing reinsurance to better manage the required capital until favorable profit margins return to justify the allocation of capital. The Company is attempting to improve its absolute capital level, seeking out entities and individuals interested in preserving the legacy and purpose of a 112-year old financial institution that has historically been a center of influence in the African-American community. We look forward to 2010 and beyond as we work to stabilize our financial position and strengthen our balance sheet, return to profitability and find efficient and creative ways to obtain capital.

Assets

During 2009, total assets declined by $7.8 million to $151.6 million. Bonds declined by $3.4 million as the Company strived to manage positive results in an extremely difficult market and also began an initiative to better match the duration of the portfolio to the duration of the loss reserve liabilities. The church lending program continues to provide a positive risk-adjusted spread to the 10-year Treasury benchmark as well as

# Management's Discussion and Analysis

generate current fee income. We are pleased with the continuing traction that we are seeing in the marketplace through this important African-American "Center of Influence". Our review of the commercial mortgage portfolio continues to indicate that the fair value of these properties less a reasonable estimate of costs to foreclose exceeds any loan balance on our books at year end.

Amounts recoverable under reinsurance contracts declined by $2.7 million, primarily due to the settlement of 2008 amounts due to and from reinsurance contracts. Much of the decline is due to the settling of amounts due to and from reinsurers during the year which also resulted in a decline in related liabilities as well.

Liabilities

Total liabilities declined by $4.7 million to $145.2 million. As mentioned in the Introduction, the Company increased its use of ceded reinsurance as it attempts to avoid exposure to the underwriting losses and focuses more on marketing fees in lines of business that currently have thin or no profit margins yet are key long term business relationships that we desire to maintain. $3.2 million of the $4.7 million decrease in total liabilities is due to a new retrocession reinsurance relationship that affects our group line of business. Additionally, the Company revised an existing agreement related to new business that increases the amount of ceded reinsurance to 90%.

Funds held under coinsurance decreased by $1.1 million due to the settling of amounts due to and from reinsurance agreements (see Assets discussion for corresponding note). In 2009, the Company also suspended its dividends apportioned for future payments, resulting in an additional decrease to liabilities of $549,000.

Capital and Surplus

Surplus decreased by $3.1 million during 2009 to $6.4 million. The decrease was a result of the $2.5 million net loss; $944,000 from operations and $1.6 million from realized losses from investments. While the Company continues to focus its efforts on returning to profitability, the loss from operations is a significant improvement from the 2008 operating loss of $4.5 million and is a result of the efforts and initiatives undertaken during the year including but not limited to increased product pricing, changes to underwriting guidelines, use of reinsurance to mitigate potential for losses in down market lines and a strong and continued focus on reducing general and administrative expenses. Surplus declined by an additional $600,000 due to market fluctuations in a small, thinly traded investment in common stock.

At the end of 2008, the Company's regulatory capital had deteriorated to a level that resulted in a Risk Based Capital ("RBC") ratio of 230% which triggered a Company Action Level event. The Company prepared a plan of compliance that outlined various initiatives intended to raise the RBC ratio above 250% by the end of 2009. These initiatives included the exiting of certain lines of business that required large amounts of capital with little if any return on the investment of such capital. Additionally, the Company completed initiatives related to expense reductions and an increase in the use of reinsurance as a means to minimize expected losses in 2009 in certain lines of business. As a result of executing these initiatives, the RBC ratio has increased to 302% at December 31, 2009 which is above the statutory limits for Company Action Level.

The company continues to focus its efforts towards increasing absolute capital, reducing our required capital levels and returning to profitability that we feel, when combined with the items mentioned above, will significantly improve our overall capital position and return us to a level of capital well in excess of the regulatory required amounts.

RESULTS OF OPERATIONS

For the year, the Company reported a net loss of $2.5 million, a $1.9 million improvement from 2008's net loss of $4.4 million. The $2.5 million net loss includes $1.6 million of realized losses from investments impacted by the economic downturn during the year.

The Company reported a net loss from operations of $944,000, a $3.6 million improvement from the prior year. This dramatic improvement is the result of numerous initiatives undertaken by the Company to improve operational results, either through changes in pricing, agent compensation, underwriting guidelines or claims processing. In addition to those items, the Company also reduced its general and administrative costs by over $2.0 million from 2008 as a result of lower personnel and related costs, better utilization of physical space and continuing to focus on cost reduction efforts company-wide.

As in 2008, these savings were somewhat offset by losses in the group lines of business as profit margins continued to be thin or non-existent in the sector during the continued economic downturn. However, the

# Management's Discussion and Analysis

Company was able to limit the extent of these losses to the first quarter through the implementation of a new reinsurance agreement effective April 1, 2009, resulting in a significant improvement over the prior year.

The Company continues to make strategic decisions in order to return to profitability and a stronger capital position, including the continued focus on expense reductions in all aspects of the business, realignment of corporate departments, reducing the overall expense of the corporate headquarters through better space management and subletting of available space and pursuing unique alternatives for capital raises that bolster our absolute capital position and improve our adequacy ratios.

Net premiums decreased from $37.3 million in 2008 to $26.7 million in 2009. The decrease in net premiums is primarily attributable to the increase in the Company's use of ceded reinsurance and the terminating of unprofitable group assumed cases. Our core individual business continued to experience increases overall as our agents perform well and we realize the positive impact of the former Booker T. Washington agents selling our products as originally intended.

The significant decrease in commissions, expense allowances and other income and change in reserves all reflect the net results of accounting for the BTW acquisition in 2008.

CASH FLOW AND LIQUIDITY

Cash and short-term investments remained relatively flat with 2008 at $12.3 million. Cash and liquidity are sufficient to meet the Company's anticipated current short-term operational and growth cash needs. In addition to the $12.3 million of available cash and short-term investments, $1.7 million of the carrying value of the investment in bonds represents scheduled maturities within 2010. The Company does not currently have any material commitments for capital expenditures. In addition to the resources described above, the Company intends to pursue other sources of capital to fund its long-term growth strategies and continue to examine operating expenses in order to identify additional savings through process improvements and technological advancements.

# Management's Discussion and Analysis

## SUMMARY OF ASSETS, LIABILITIES AND SURPLUS
## AS OF DECEMBER 31, 2009 AND 2008

| | 2009 | | 2008 | | Inc/(Dec) for Year | |
|---|---|---|---|---|---|---|
| | Amount | % of Total | Amount | % of Total | Variance | % of Change |
| Cash and short-term investments | $12,305,969 | 8.12% | $12,170,662 | 8.03% | $135,307 | 1.11% |
| Bonds | 99,761,149 | 65.81% | 103,112,427 | 68.02% | (3,351,278) | -3.25% |
| Common Stocks | 401,535 | 0.26% | 1,017,843 | 0.67% | (616,308) | -60.55% |
| Mortgage Loans | 12,957,254 | 8.55% | 12,661,732 | 8.35% | 295,522 | 2.33% |
| Loans to Policyowners | 6,486,899 | 4.28% | 6,393,810 | 4.22% | 93,089 | 1.46% |
| Other Invested Assets | 261,303 | 0.17% | 671,669 | 0.44% | (410,366) | -61.10% |
| Total Invested Assets | 132,174,109 | 87.20% | 136,028,143 | 89.74% | (3,854,034) | -2.83% |
| Premiums and Investment Income Due or Accrued | 5,148,291 | 3.40% | 6,801,485 | 4.49% | ($1,653,194) | -24.31% |
| Cash Value - Policies on Officers | 8,916,687 | 5.88% | 8,530,524 | 5.63% | $386,163 | 4.53% |
| Amounts Recoverable from Reinsurers | 5,193,325 | 3.43% | 7,903,115 | 5.21% | ($2,709,790) | -34.29% |
| Other Assets | 147,825 | 0.10% | 147,618 | 0.10% | $207 | 0.14% |
| **Total Assets** | **$151,580,237** | **100%** | **$159,410,885** | **105%** | **($7,830,648)** | **-4.91%** |
| Policy Reserves | $126,707,691 | 87.26% | $125,949,547 | 86.73% | 758,144 | 0.60% |
| Claim Reserves | 4,040,631 | 2.78% | 8,459,402 | 5.83% | (4,418,771) | -52.24% |
| Deposit Type Fund and Policyholder Dividends | 2,698,176 | 1.86% | 3,274,951 | 2.26% | (576,775) | -17.61% |
| Premiums Received in Advance | 221,248 | 0.15% | 222,315 | 0.15% | (1,067) | -0.48% |
| Funds Held | 4,680,551 | 3.22% | 5,801,450 | 4.00% | (1,120,899) | -19.32% |
| Commissions to agents due and accrued | 644,652 | 0.44% | 375,293 | 0.26% | 269,359 | 71.77% |
| Amounts Due or Accrued | 539,959 | 0.37% | 891,819 | 0.61% | (351,860) | -39.45% |
| Amounts withheld or retained by company | 17,508 | 0.01% | (144,835) | -0.10% | 162,343 | -112.09% |
| Remittances and Items not Allocated | 437,215 | 0.30% | 441,136 | 0.30% | (3,921) | -0.89% |
| Liability for Benefits for Emp. and Agents | 3,877,149 | 2.67% | 3,958,985 | 2.73% | (81,836) | -2.07% |
| Asset Valuation Reserve | 326,488 | 0.22% | 608,371 | 0.42% | (281,883) | -46.33% |
| Other Liabilities | 1,023,663 | 0.70% | 77,400 | 0.05% | 946,263 | 1222.56% |
| **Total Liabilities** | 145,214,931 | 100.00% | 149,915,834 | 103.24% | (4,700,903) | -3.14% |
| **Surplus** | 6,365,306 | | 9,495,051 | | (3,129,745) | -32.96% |
| **Total Liabilities and Surplus** | **$151,580,237** | | **$159,410,885** | | **($7,830,648)** | **-4.91%** |

# Management's Discussion and Analysis

## SUMMARY OF OPERATIONS
## FOR THE PERIODS ENDING DECEMBER 31, 2009 AND DECEMBER 31, 2008

| | 2009 | 2008 | Variance |
|---|---|---|---|
| Premiums and Annuity Income | $26,707,858 | $37,311,837 | ($10,603,979) |
| Net Investment Income and IMR | 7,613,066 | 7,541,515 | 71,551 |
| Commissions, Expense Allowances and Other Income | 4,671,431 | 35,696,537 | (31,025,106) |
| **Total Income** | 38,992,355 | 80,549,889 | (41,557,534) |
| Benefits | 20,161,786 | 28,160,361 | (7,998,575) |
| Change in Reserves | 758,144 | 29,379,771 | (28,621,627) |
| Operating Expenses | 19,112,990 | 27,021,083 | (7,908,093) |
| **Total Expenses** | 40,032,920 | 84,561,215 | (44,528,295) |
| **Income (Loss) from operations** | (1,040,565) | (4,011,326) | 2,970,761 |
| Divends to Policyholders | 96,699 | (522,764) | 619,463 |
| Realized Capital Gains | (1,561,796) | 124,265 | (1,686,061) |
| **Net Income (Loss)** | **($2,505,662)** | **($4,409,825)** | **$1,904,163** |